

ACCOUNTANCY

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PROFESSIONAL NOTES

The Budget

The Chancellor of the Exchequer delivered his Budget speech on April 25. The features of greatest interest to members of the accountancy profession are dealt with in our Editorial, and in an article on page 150, which is followed by some tables extracted from the Financial Statement and from the "Analysis of the Sources of War Finance and Estimates of the National Income and Expenditure, 1938 to 1943."

War Service Candidates

We publish in another column the facilities which the Council of the Society of Incorporated Accountants is prepared to extend to articled clerks and special bye-law candidates whose training has been interrupted or deferred owing to war service. The Council's policy is directed to mitigating so far as possible the effects of a prolonged period of absence from the profession on the careers of those who have volunteered or have been called up for H.M. Forces or other forms of full-time national service. But membership of the Society must involve an adequate standard of knowledge and experience. Thus every candidate must have completed an appropriate

minimum period of service in the profession, though this will be substantially less than would otherwise be required; and, while in suitable cases articled clerks and other previously accepted candidates may be exempted from the Intermediate Examination, all those concerned must pass the Final. The concessions will have immediate effect for those who may be discharged while the war is still in progress; those who continue to serve will find in them a helpful guide to the conditions under which they may hope to secure the qualification of Incorporated Accountant at the cessation of hostilities.

The Society's Annual Meeting

The fifty-ninth annual general meeting of the Society of Incorporated Accountants will be held at Incorporated Accountants' Hall on Thursday, May 18, 1944, at 2.30 p.m. The President, Mr. Richard A. Wittey, will occupy the chair. The meeting will be followed by the annual meeting of the Incorporated Accountants' Benevolent Fund, under the chairmanship of Sir Thomas Keens, D.L., F.S.A.A., President of the Fund. It is hoped that as many members as possible will attend both meetings.

Company Law Amendment

A memorandum of evidence by the Society of Incorporated Accountants has been submitted to the Company Law Amendment Committee of the Board of Trade, and oral evidence on behalf of the Society was given on April 28 by Mr. E. Cassleton Elliott, Past-President, and Mr. A. Stuart Allen, member of the Council. We hope to publish the evidence in a future issue. Meanwhile, we continue our policy of summarising for the convenience of readers the chief points made by the various bodies and witnesses whose evidence has already been published by H.M. Stationery Office.

Tax Reserve Certificates

The Treasury is to be congratulated on the promptitude and completeness with which it has remedied a serious defect in the terms hitherto attaching to tax reserve certificates. It was, of course, appreciated by everybody that these had only a two-years' life; but there was a very general impression that if they were tendered for payment of tax more than two years from the date of issue, interest would only be disallowed in respect of the excess period. From the beginning of this year, however, when the first certificates began to run out, many taxpayers had an unwelcome surprise. Strictly, they could obtain repayment from the Bank of England, without interest. In practice, the Board of Inland Revenue was prepared to meet their convenience by accepting an out-of-date certificate for encashment and to apply the proceeds in payment of tax, but only on the understanding that no interest at all would be allowable. In one case brought to the notice of the Society, interest was disallowed on a certificate purchased on December 31, 1941, and tendered for payment of tax due on January 1, 1944—two years and one day later. This meant that many companies had unwittingly been making interest-free loans to the Government. Had this disability continued, companies would have undoubtedly under-provided for their tax requirements in the purchase of certificates, and the whole principle of encouraging businesses to set aside definite sums for future tax payments and of making these sums immediately available to the Exchequer would have been weakened. The life of the certificates has, therefore, now been extended to five years, though they can still only earn a maximum of two years' interest. The concession has been made retrospective. Adjustment will be made where certificates have already been accepted for payment of tax without interest being allowed. Where certificates have been encashed without being tendered in payment of tax, subscribers are entitled to apply to have any certificates which they now hold, or may hold in future, ante-dated for a period equivalent to that for which they can show they have lent money free of interest on a certificate bought under the old terms.

The New Currency Plan

The new currency plan has been accepted in principle by the experts of all the United Nations, but it has yet to be adopted by their Governments. In view of the American reaction to previous currency proposals, it remains to be seen whether the United States Congress will approve the scheme, but it should certainly command widespread approval in this country. In recent months, fears have been expressed that any multilateral plan which involved linking sterling at all closely to the dollar might sooner or later involve this country in deflation. As the United States Department of Commerce itself has recently recognised, one of the most disruptive factors in international trade hitherto has been the very violent fluctuations in the supply of dollars, due to the instability of the U.S. national income. The new currency plan contains one provision which should afford a complete safeguard against any difficulties arising on this account. Like the original White Plan, it contains a provision for the rationing of "scarce" currencies by the monetary fund. But it also provides that, once rationing of any currency becomes necessary, other members are at liberty to impose restrictions on imports from the country concerned. The latter can, of course, at any time secure the removal of these discriminatory restrictions on its exports by following policies that remedy the scarcity of its currency—that is, by pursuing a more expansionist policy at home (raising its national income and, as a result, its imports) or by lending more abroad.

Changes in Parities

The second main strand of criticism of the earlier plans was the undue rigidity these would have imparted to the exchange rates fixed at the outset. It was feared that it would have been extremely difficult to secure international agreement to any change of parity, and that a member country might in consequence be forced to adopt the same policies as under the gold standard with the object of maintaining the rate fixed. Under this head, also, the new plan is considerably more elastic than its predecessors. An initial depreciation of 10 per cent. could be made unilaterally. Thereafter, changes require the approval of the Fund; but the decision could be given by a simple majority instead of by 80 per cent. of the member votes. Moreover, it is laid down that in arriving at its decision the Fund has only to determine whether a change in rate is needed to correct a "fundamental disequilibrium": it must "accept the domestic, social or political policies of the country applying for a change as facts of the situation to be accepted and not criticised." In other words, each member would retain full sovereignty over its internal economic policy. In spite of this extreme flexibility, the plan should, nevertheless, perform a useful service in laying the foundations for an orderly world after the war.

The New Governor

Although Lord Catto is comparatively little known to the general public, his appointment as Governor to the Bank of England in succession to Mr. Montagu Norman, has given great satisfaction in financial circles. By common consent, he is one of the ablest of our bankers, and his experience as Financial Adviser to the Chancellor of the Exchequer during the past four years renders him peculiarly fitted to take over the guidance of the Bank at this juncture. His career has been a remarkable one. Beginning his working life at the age of fifteen in a Newcastle shipowner's office, he rapidly rose in the commercial world, and before the age of thirty was sent to New York as vice-president of a well-known merchant house, having previously spent some time in Russia, the Near East, and the Middle East. After the last war, he lived in India for twelve years as head of the important house of Andrew Yule and Co., Ltd., Calcutta, with which he has been associated ever since. Coming into the City, he became a director of Morgan Grenfell and Co., and for some years was chairman of the Mercantile Bank of India. In March, 1940, he was elected to the Court of the Bank of England, but resigned this position, and his other business appointments, three months later, when he went to the Treasury at the invitation of Sir Kingsley Wood. There will be general regret that Mr. Norman's retirement should have been necessitated by ill-health on the eve of the centenary of the Bank Charter Act and the 250th anniversary of the Bank of England, whose destinies Mr. Norman himself has guided for nearly a quarter of a century.

The Stock Exchange

Since 1802 the affairs of the Stock Exchange have been conducted under a system of dual control. The Trustees and Managers have watched the interests of the proprietors, and the Committee for General Purposes the interests of the members. Although proprietors and members are now the same persons, the possibility of a conflict of interest has always been present. Some, for instance, may be more concerned in one capacity than in the other, and while it is to the interest of the proprietors that dividends should be maximised, it is to the advantage of members—and, of course, of the public—that Stock Exchange services should be improved. There has been no way of resolving this conflict, and although the arrangement has been the object of criticism for many years, it is remarkable that it has not in fact engendered friction. At all events, there will be a general welcome for the news that it is now to be ended, and that the Stock Exchange is to be controlled by a single body representing both the proprietors and the members. The discussions leading up to this conclusion have been in progress for the last two years, and details are still awaited of the methods whereby unified control will be established without affecting the financial rights of the proprietors. This reform of an obviously outmoded piece of machinery should not be considered as a matter of purely domestic importance. The primary object is, no doubt, to modernise Stock Exchange govern-

ment in the interests of those most directly concerned, but the underlying intention may well be to raise the whole status of the Stock Exchange and increase its authority in dealing with the outside world. The new body should, for instance, be much better fitted to deal with post-war problems and to consider general questions of professional status.

Returning Food Retailers

The reopening of food shops by ex-Service men and women will be facilitated under arrangements recently announced by the Minister of Food, the Right Hon. Colonel Llewellyn, C.B.E., M.P. Licences will be granted, without applying the normal test of the need of consumers in the area, to persons who have rendered full-time service in H.M. Forces, the Merchant Navy, or civil defence, or who closed their businesses because their premises were bombed. It is a condition in each case that the business must not have been sold. The licence will authorise the resumption of the same kind of business as before, in the same shopping area. The traders will be enabled to obtain the necessary supplies of foods and to open a points banking account with an initial credit of 3,000 points. Consumers will be allowed to transfer their registrations to the reopened business within the first four weeks from the reopening. Catering establishments and hotels are included in the arrangements, but the retail sale of milk is excluded owing to the zoned distribution system. The scheme is now in force, but no application will be considered until it has been decided that the Ministry of Labour and National Service does not require the applicant to undertake work of national importance.

Salvage of Old Books and Papers

We are again asked by the Director of Salvage and Recovery (General), Ministry of Supply, to draw attention to the need for waste paper and cardboard to meet the urgent demands for cartons and other paper products for the Forces and for civilian uses. The appeal contained in our issue for December, 1941, met with a gratifying response, but the need for salvage is continuous. The present collections of waste paper fall considerably below the amount required to maintain essential supplies. It is, no doubt, the well-established practice now in every office to hand over for salvage all waste paper arising from day to day. There are, however, in many offices accumulations of old books and papers which become obsolete by effluxion of time. The clearing out of these will provide valuable material for salvage, and at the same time will have the advantage of providing additional space in offices and store rooms. It is recognised that the task of sorting old papers is a difficult one, especially with depleted staffs. The Director of Salvage suggests that one solution may be to utilise part of the time devoted to fire-watching. The material thus made available may be handed over to the local authority salvage collection or may be sold to a waste paper merchant—possibly for the benefit of the Incorporated Accountants' Benevolent Fund or of the Red Cross and St. John Fund.

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THE NATION'S FINANCES

The rather humdrum character of the immediately operative Budget proposals has, this year, focused increased attention on the analysis of the sources of war finance and estimates of national income and expenditure which are now regularly published on Budget day. Year by year the White Paper containing this mass of statistics on the national finances, as seen in their widest context, improves on its predecessor, not merely in the size of the figures which it gives, but in the accuracy and detail of their presentation.

The net national income, which amounted to £4,604 million in the last pre-war year, had by 1943 risen to £8,172 million—an increase of £568 million on the total for 1942. Of that increase, £225 million was provided by increased pay and allowances to members of the Forces, £208 million by increased wages, £106 million by profits, including professional earnings, and the small balance of £29 million by increased salaries.

The greater levelling of incomes indicated by the large share of the total increase going to Forces' pay and wages is also revealed in the table showing the distribution of incomes in five ranges: £250-£500, £500-£1,000, £1,000-£2,000, £2,000-£10,000 and £10,000 and over. In 1938 there were 1,745,000 incomes in the lowest of these ranges representing an aggregate income, before taxation, of £595 million. In 1942 the number of incomes in this group had jumped to 5,500,000 and they represented a total of £1,854 million. The number of incomes of £10,000 and over remained unchanged at 8,000, while incomes between £2,000 and £10,000 barely increased, namely, from 97,000 to 102,000. But the incidence of direct taxation has played an even greater part in the process. Of the £250-£500 incomes, the proportion retained after deduction of taxes fell from 97.3 to 85.4 per cent. between 1938 and 1942. On the £2,000-£10,000 incomes, this proportion fell from 71.9 to 48.1 per cent., and on those above £10,000, from 49.4 to 20.6 per cent.

This levelling of incomes, together with rationing and other physical restrictions on spending, have together made for considerable changes in personal expenditure on consumption. Last year, out of a national income of £8,172 million, this personal expenditure amounted to £4,981 million, of which £1,264 million, or about a quarter, went on food and no less than £1,053 million on drink and tobacco. Rents and rates accounted for £510 million, or less than half the drink and tobacco bill, and clothing,

the next largest single item, amounted to £447 million. There is no doubt where the inflationary fringe of consumption goods is to be found. Provided these goods are heavily taxed, which they undoubtedly are, and that their production does not absorb an unduly large proportion of the country's labour and material resources, there is a good case on pure economic grounds for maintaining their supply and allowing them to mop up inflationary purchasing power. Tobacco, which is now appreciably dearer than silver—weight for weight—tends to do in this country what official sales of the precious metals are doing in India.

Perhaps the most surprising feature of the official estimates is the rise in private savings. Net personal savings are put at £1,407 million for 1943, an increase of £334 million on 1942 and comparing with a total of only £158 million for 1938. These figures are arrived at after deducting the amount collected in death duties (which are a form of dissaving) and allowing for larger balances to meet accrued taxation. The increase of savings over the 1942 figures accounts for more than half the increased personal income. This astonishingly high level of private saving, taken in conjunction with the diversion of spending power to drink and tobacco, where a very large part of the amount spent is canalised back to the Exchequer through indirect taxes, helps to explain the resistance of prices to the substantial increase in the national money income.

Of the central Government's expenditure of £5,782 million for 1943, a total of £655 million was covered by overseas disinvestment. This item can only have been represented to a small extent by outright sales of foreign assets and must, in the main, reflect the steadily increasing debt which this country is accumulating to Empire countries, largely to India. Of the balance of £5,127 million requiring domestic finance, the central Government revenue brought in £2,876 million.

The general impression left by these official estimates is reassuring. Rather more than half the Government expenditure continues to be met from taxation and the financial situation is held well under control. Nevertheless, it is necessary to bear in mind Sir John Anderson's remarks about the impossibility of at one and the same time paying ever-increasing wages and increasing the subsidies to stabilise the cost of living. Nor must it be forgotten that the national capital, both at home and abroad, is steadily running down. Private savings may be running at a magnificent level, but they find their counterpart mainly in works of destruction. Our debts to overseas countries continue to pile up, while the net running down of capital at home was estimated at £250 million for 1943. This contrast between record savings on the one hand and, on the other, record disinvestment is the main paradox revealed by the White Paper. It is more than a paradox; it is a warning of the tremendous effort that will have to be made after the war in reconstituting this capital while, at the same time, restoring consumption to a level which, the Chancellor hoped, would prove somewhat higher than that which exists to-day.

— Accounts of Holding Companies

[CONTRIBUTED]

The recommendations of the Council of the Institute of Chartered Accountants on disclosure in the accounts of holding companies are of interest not only to auditors and to accountants directly engaged in commerce, but also and perhaps most of all to directors of large public companies. The recommendations will no doubt receive the careful consideration of the Company Law Amendment Committee, and it is generally anticipated that legislation will prescribe in due course the nature and perhaps the form of the information to be furnished by holding companies, at present governed only by Section 126 of the Companies Act, 1929.

The recommendations are clear: in effect they call for the fullest possible disclosure of the total profits and finances of all the companies comprising a "group." It is unlikely to be generally argued that the recommendations are incapable of performance, though criticism can be anticipated on the grounds of delay in the presentation of accounts and on the much more debatable grounds of public policy.

Most large companies present their accounts within three or four months of the end of their financial year. Their subsidiaries sometimes, and their foreign subsidiaries usually, make up accounts to a date some months earlier. In a large group it is usual to find main subsidiaries each possessing their own subsidiaries, which in turn have subsidiaries of their own. The genealogical tree may extend indefinitely. A delay in the preparation or audit of the accounts of one of the great-grandchildren may cause consequential delays all the way up the family tree. At present this position is usually overcome by the use of reliable estimates of profit and loss. The immediate parent of the dilatory child can arrange for the declaration of an interim dividend if estimated profits so justify, or can make provision for any anticipated loss. This procedure is satisfactory in practice and enables the holding company to bring in to its own accounts the results of its subsidiaries. It does not, however, satisfy the requirements of consolidated accounts, the preparation of which might in many cases involve considerable delay.

The problem is not entirely solved by the extension of the time lag between the terminal date of the accounts of the subsidiaries and the accounts of the holding company. Moreover, the subsidiaries and the companies they control will make profits—or losses—after their accounts are closed and these cannot be brought into any consolidated account. To this extent consolidated accounts may be incorrect or even misleading. This is inevitable but would no doubt be accepted as being an incidental defect in a desirable reform. It should not, however, be overlooked.

Much more serious opposition is likely on other and more fundamental grounds.

The present trend of thought among practising accountants is much in advance of existing legislation. There is rather a tendency to forget the old saying, "Accountancy is the handmaid of commerce," and to look to public companies to govern their relations with their shareholders more and more in accordance with professional ideals. Professional opinion on this subject seems, however, to be followed at a respectful distance by the pressure of public opinion. Public opinion is more likely than professional ideals to influence the directors of large public companies.

One cannot reasonably expect companies, having problems which may be unique to themselves, to anticipate the requirements of future legislation unless it is clear that the pending legislation derives its motif from the general body of the investing public. If this were the case most companies would readily adapt themselves. Indeed they must do so, if they wish to survive, for a very real element of goodwill, though never shown in the balance sheet, is the confidence that investors have in the management of companies in which they are or may be interested.

Full disclosure of profits on the lines recommended may in the honest view of directors of public companies be contrary, in certain circumstances, to the long-term interests of their shareholders. Generally speaking, directors of public companies are perfectly conscious of their responsibilities in this respect. They are the sole judges of the amount of information that they may think it necessary to give to their shareholders, provided they satisfy the requirements of the law. Directors must take a long view of their responsibilities and have regard to the continuing prosperity of the company. It is accepted that profits must not be overstated and that any non-recurrent or exceptional revenue must be separately shown. It is, however, a commonplace of prudent and conservative finance for directors to retain profits in subsidiary companies to meet contingencies or to form a fund to be drawn on in future years. Industry must be run for the benefit of the community and share values must not become the counters for speculators. The auditor must have regard to the views of directors in such cases and the law should not be designed in such a way as to prevent him from doing so.

The Council of the Institute will probably have consulted commercial circles in framing their recommendations, and it is of the utmost importance that new company legislation should be moulded by the agreed views of accountancy and commerce. Their views need not be opposed. It will be admitted that those doctors get the best results who prescribe with the understanding and goodwill of their patients.

The Budget

It is evident that we are now near, if not at, the saturation point of taxation, otherwise we may be quite sure that the Chancellor would not have been so ready to prescribe the "mixture as before."

There are few items of immediate interest to practising accountants, but they assume no little importance. While the first to strike the imagination is probably the increase in E.P.T. standards other than those based on profits of a standard year, that is not the most important. There can be little doubt that the pre-eminent proposal, although it is for post-war and not immediate legislation, is that of giving relief for certain types of wasting assets.

Authors

It has long been a grievance of authors that lump sum payments for copyrights are taxed in the year they are receivable, no matter how long the author has taken over the preparation of the work. The result is often serious, owing particularly to the graduated scale of sur-tax. Many readers will remember "G.B.S.'s" letter to *The Times* in his usual style, on this topic.

To alleviate the position the Finance Bill is to contain a clause enabling an author, if he so desires, to spread a lump sum payment back over a period of three years, or the actual period of preparation of the work if shorter.

E.P.T.

The Chancellor refused to entertain any suggestion for the reduction of the rate of E.P.T. so long as hostilities lasted; the rate does not spring only from considerations of fiscal policy, e.g. it has regard also to limitation of growth of incomes as a result of the war, and the other considerations remain in full force.

He tried to remove doubts as to the post-war credit by saying that it was quite clear that all trading concerns that had to face post-war expenditure on rehabilitation and reconstruction, or that had to face capital expenditure of any kind, could look forward with absolute certainty to having their post-war E.P.T. credits available for financing of such expenditure.

We would like some assurance, however, that the individual will not lose much of his credit by its all being brought in on the year of repayment as part of his total income for sur-tax.

Many small businesses, owing to various factors, not the least of which is the rise in cost of living to which the Chancellor referred, are now swimming into the net of E.P.T. for the first time. A modest relief is to be granted, that of increasing the minimum standard and the percentage of capital standard by a round £1,000 per business. It is not clear if this will apply to substituted standards; we must await the Finance Bill. It will benefit 30,000 businesses and exempt 10,000 of them. Moreover, it will lighten the task of accountants in these cases.

It will operate from April 1, 1944, and any deficiency arising from the increase will be available for relief in future, but cannot be used against past excesses.

Section 35, Finance Act, 1941, dealing with the

avoidance of tax by "transactions" having as their main purpose such avoidance, is to be strengthened in relation to fixing the increased standard, though we are led to expect other adjustments.

Taxation After the War

The Chancellor warned the House that so long as the war with Japan continued the end of hostilities in Europe would make a much smaller difference to our war expenditure than might be supposed; not only would the war require a great effort, but the programmes of social and economic development would demand expenditure. The general burden of taxation would have to remain high for some considerable time to come.

Income Tax in the Post-war Period

To enable industry to proceed with post-war planning, the Chancellor indicated his intentions as to income tax in the post-war period. Many details would require to be filled in before that policy could be translated to the Statute Book, but the legislation would be proposed in good time.

He was not able to promise relief for profits placed to reserve for the future development and extension of the business, but promised relief in that taxation should be on real profits, struck after making all proper deductions and allowances, especially adequate allowances such as might be made on a commercial basis for the amortisation of money spent on assets which are used up in the making of profits.

He proposed that there should be given, apart from wear and tear allowance, a special initial allowance of 20 per cent. of the cost of new plant and machinery. And in the case of a continuing business, the obsolescence allowance will be given when plant and machinery are scrapped, whether the particular piece of plant or machinery is replaced or not. As a corollary, if plant, etc., is sold at more than the written-down value, the excess allowance will be adjusted.

In the case of industrial buildings (factories, etc.), it is proposed that the cost of the building shall be written off on the basis of a 50 years' life, with an initial instalment of 10 per cent., the allowance (not the initial instalment) to be applied to existing as well as new factories, in so far as not written off under the existing exceptional depreciation allowance. The existing depreciation of factories allowance will then disappear.

Farm buildings, cottages, etc., will qualify for the allowance, the relief going to tenant or landlord according to who bears the expenditure.

Lump sum payments for patents are to be regarded as revenue and not capital items. The trader who pays any lump sum will be allowed to write it off during the life of the patent, while the seller will be allowed to spread it over a number of years.

The position of leasehold premiums will be considered.

A depreciation allowance will be introduced in the extractive industries, i.e. mines, oil wells, quarries,

etc., where capital expenditure is incurred on assets limited in life by the life of the mineral or oil deposits. New expenditure in sinking shafts and provision of surface facilities will qualify for an additional allowance on the same principle as new buildings, plant, etc., and the balance of expenditure will be written off against subsequent profits.

Scientific Research

Unlike the matters mentioned above for post-war periods, scientific research is to be dealt with in the Finance Bill. Capital expenditure is to be allowed as an expense over a period of five years or shorter life of the assets, and current research expenditure as it is incurred. In addition, any payment to any approved central research body, or to research at a university or college, will also be allowed.

Persons Resident Abroad

MacKillop v. C.I.R. (1943, T.R.145) decided against the Revenue on the method of deducting Dominion income tax relief in the case of claims by

British subjects not resident in the United Kingdom, under Section 24, Finance Act, 1920. The Finance Bill is to reinstate the Revenue practice.

Trading With the Enemy

Retrospective provision is to be made as respects income tax and death duties where persons, income or property are or is affected by the law relating to trading with the enemy.

Estate Duty

The complicated provisions of the Finance Act, 1940, regarding estate duty on assets transferred to companies are to be amended in many respects. Another step is to be taken against "legal avoidance."

Conclusion

Immediate proposals are few; those for the future are fundamental and their incorporation and expansion in a later Bill will be eagerly awaited. In the meantime, the lead given will be of considerable assistance in post-war planning.

Budget Estimates, 1944-45

A.—ORDINARY REVENUE AND EXPENDITURE

ESTIMATED REVENUE		ESTIMATED EXPENDITURE	
<i>Inland Revenue—</i>			
Income Tax ...	1,300,000,000	Interest and Management of National Debt ...	420,000,000
Sur-tax ...	80,000,000	Payments to Northern Ireland Exchequer (including net share of reserved taxes) ...	9,000,000
Estate Duties ...	100,000,000	Miscellaneous Consolidated Fund Services ...	7,000,000
Stamps ...	19,000,000		
National Defence Contribution ...	500,000,000	Total ...	436,000,000
Excess Profits Tax ...			
Other Inland Revenue Duties ...	1,000,000		
Total Inland Revenue ...	2,000,000,000		
<i>Customs and Excise—</i>			
Customs ...	564,900,000	<i>Supply Services—</i>	
Excise ...	472,900,000	<i>Defence—</i>	
Total Customs and Excise ...	1,037,800,000	Token Votes ...	4,000*
Motor Vehicle Duties ...	27,000,000	<i>Civil—</i>	
TOTAL RECEIPTS FROM TAXES ...	3,064,800,000	I. Central Government and Finance ...	3,484,000
Wireless Licences ...	4,850,000	II. Foreign and Imperial ...	19,050,000
Crown Lands ...	800,000	III. Home Department, Law and Justice ...	20,078,000
Receipts from Sundry Loans ...	7,350,000	IV. Education and Broadcasting ...	86,507,000
Miscellaneous ...	24,000,000	V. Health, Labour, Insurance (including Old Age and Widows Pensions) ...	211,481,000
TOTAL REVENUE ...	3,101,800,000	VI. Trade, Industry and Transport ...	21,427,000
EXCESS OF EXPENDITURE OVER REVENUE ...	2,835,599,000	VII. Common Services (Works, Stationery, etc.) ...	15,615,000
		VIII. Non-Effective Charges (Pensions) ...	39,495,000
		IX. Exchequer Contributions to Local Revenues ...	52,773,000
		X. War Services (Token Votes) ...	2,000
		Votes of Credit ...	469,912,000
		Post Office Vote (Excess over Revenue) ...	5,000,000,000†
			11,000,000
		<i>Tax Collection—</i>	
		Customs and Excise and Inland Revenue Votes (including Pensions, £1,480,000) ...	20,483,000
			5,501,399,000
		TOTAL EXPENDITURE ...	5,937,399,000
	5,937,399,000		

* Substantive cost in 1944 to be met from Votes of Credit.

† Excluding value of supplies in kind under Lend-Lease and similar arrangements.

B.—SELF-BALANCING REVENUE AND EXPENDITURE

* Post Office expenditure corresponding to Revenue (including Pensions £6,520,000) ... 112,370,000

* Excluding £18,000,000 estimated to be required from Votes of Credit.

National Income and Expenditure

PERSONAL EXPENDITURE ON CONSUMPTION

	1938	1940	1942	1943
	(£ million)			
Food	1,198	1,235	1,320	1,264
Drink and tobacco	442	612	906	1,053
Rent, rates, etc.	491	515	511	510
Fuel and light	203	210	242	240
Other household goods	274	257	216	184
Clothing	447	497	485	447
Travel*	289	179	217	227
Other services	490	488	512	520
Other goods†	238	317	448	536
Consumption at market prices	4,072	4,310	4,857	4,981

* Including privately-owned vehicles and their running expenses.

† Including the income issued in kind to H.M. Forces and Auxiliary Services.

PRIVATE INCOME AND OUTLAY

Personal Income

	1938	1940	1942	1943
	(£ million)			
Rent of land and buildings, interest and profits received by persons	1,594	1,784	1,926	2,059
Wages and salaries	2,827	3,323	4,038	4,275
Pay and allowances (in cash and kind) of H.M. Forces and Auxiliary Services	80	388	861	1,086
Pension payments	131	151	201	221
Unemployment payments, etc.	113	64	20	17
Health payments	34	35	40	44
Other transfer payments	—	15	11	6
Personal income before tax	4,779	5,760	7,097	7,708
Personal expenditure on consumption ¹	3,648	3,792	4,093	4,098
Property and life assurance	66	66	68	68
Excess of indirect taxes and rates specifically on consumption over subsidies	424	518	764	883
Direct tax payments ²	382	526	678	895
Income tax payments due for repayment after the war	—	—	125	170
Death duties ³	90	85	100	104
Excess of direct tax liabilities over payments	11	46	196	83
Net personal saving ⁴	(158)	(727)	(1,073)	(1,407)
Personal outlay	4,779	5,760	7,097	7,708

Impersonal Income

Impersonal income before tax	259	615	962	995
N.D.C. and E.P.T. payments	15	68	348	483
Other direct tax payments, including War Damage Act contributions and premiums met out of impersonal income	62	110	269	253
Excess of direct tax liabilities on impersonal income over payments	12	247	145	49
Net personal saving after setting aside the excess of direct tax liabilities over payments	170	190	200	210
Impersonal outlay	259	615	962	995

¹ Adjusted for subsidies and specific indirect taxes, rates, etc.

² Including War Damage Act contributions and premiums met out of personal income, but excluding income tax payments due for repayment after the war and death duties, etc.

³ And stamps on the transfer of property.

⁴ After setting aside the excess of direct tax liabilities over payments.

SOURCES OF CENTRAL GOVERNMENT EXPENDITURE

	1938	1940	1942	1943
	(£ million)			
Central government revenue	883	1,258	2,344	2,876
Net private saving after setting aside the excess of direct tax liabilities over payments	328	917	1,273	1,617
Excess of direct tax liabilities on private income over payments	23	293	341	132
Surplus on extra-budgetary funds	22	148	152	120
Local authority surplus	7	41	71	71
War Damage compensation ¹	—	36	154	136
Less				
Increase in work in progress on government account held under private finance	305	—200	—100	—75
Private net investment (or plus disinvestment) at home and other war losses made good		91	240	250
Private and government net investment (or plus disinvestment) abroad	55	756	635	655
Central government deficit	130	2,082	2,766	2,906
Central government expenditure	1,013	3,340	5,110	5,782
Central government revenue	883	1,258	2,344	2,876
Unemployment Fund	—1	24	74	74
National Health Funds	—	9	12	9
Local Loans Fund	—2	5	10	10
Other extra-budgetary receipts ²	257	516	—58	—155
Reconstruction Finance Corporation loan	—	—	4	—7
Canadian Government interest-free loan	—	—	157	—4
Miscellaneous ³	5	12	15	16
Less				
Sinking funds	—11	—12	—13	—15
Other expenditure (net)	4	—8	—1	15
Finance through government agencies	252	546	200	—57
Post Office and Trustee Savings Banks	—1	119	234	301
National Savings Certificates including increase in accrued interest	3	167	232	297
Defence Bonds	—	180	134	121
Other public issues (net)	53	553	1,037	1,050
Increase in fiduciary issue	10	50	170	150
Increase in Treasury Bills held outside government departments and Bank Ways and Means	—189	129	151	433
Treasury deposit receipts	—	338	155	434
Tax reserve certificates	—	—	453	177
Public borrowing at home	—122	1,536	2,566	2,963
Central government expenditure	1,013	3,340	5,110	5,782

¹ i.e., Compensation received in respect of claims under the marine and commodities war risks insurance schemes and the War Damage Act, Part II.

² Including war risks insurance and certain War Damage Act receipts, Exchange Equalisation Account and reduction in Exchequer balance.

³ i.e., Receipts from capital transactions included in miscellaneous revenue, and appropriations in aid arising from capital transactions.

Bank Charges: The United States Practice

By F. BRADSHAW MAKIN, F.C.I.S., F.R.Econ.S.

Though the question of bank charges was not mentioned in the recent addresses given by the bank chairmen, the subject has not necessarily been permanently shelved. A post-war increase must not be ruled out, and little valid objection could be raised against the proposal that every account should cover its operating costs, either by means of a minimum balance or by services charges. British depositors may therefore find special interest in a brief survey of current practice in the United States. For convenience, the illustrations are expressed in sterling.

The main methods used to levy charges in the U.S.A. are four, viz.: 1. Flat; 2. Measured or Metered; 3. Cost Analysis; and 4. Pay as You Go.

The Flat Charge

The flat charge, which is simple to operate and which was the earliest type of service charge, takes the form of levying a flat sum against accounts which do not maintain a stipulated minimum balance. The schedule of rates provides for a fixed monthly charge equivalent to 7s. 6d. on accounts where the balance is less than £25, 5s. on balances between £25 and £50, and 2s. 6d. between £50 and £100. An average balance exceeding £100 bears no charge as the deposit itself is deemed to earn sufficient to cover the account operating costs. Though the flat system was generally used until about 1934, the measured service charge has now largely superseded it.

The Measured Service Charge

The measured service charge is similar to the flat in so far as a minimum balance charge is levied, but in addition an activity fee is also payable. The usual custom is to charge about 1s. per month where the balance does not exceed £25/30, plus an activity fee of 2d. per cheque drawn and 1d. per cheque deposited. Where the balance exceeds £30 no base charge is levied, but the activity fee is charged on all cheques drawn in excess of 5 per month. Generally speaking, five free cheques per month are allowed for each £25 balance; thus, a person maintaining an account with a credit of £100 could issue 20 cheques monthly before an activity fee was levied. The charge of 1d. per cheque deposited is made irrespective of the balance.

Though there are a great many variations in minimum balances and base charges the general principle is the same in each case, viz., that the charges imposed, together with the earnings obtained from the account balance, should be sufficient to cover operating expenses and show a profit. The measured charge is still widely used in American banks, though a growing number are now operating the cost analysis service charge.

The Cost Analysis Charge

As the name implies, the cost analysis plan of levying service charges is based upon the cost analysis of an account to determine whether or not it is producing a satisfactory profit. Before this system can be

operated it is necessary for a comprehensive study to be made of all costs so that a cost per item can be fixed. This work is frequently undertaken by specialist cost consultants.

Four main calculations are necessary in cost analysis systems. First the average daily balance must be ascertained. Secondly the average daily uncollected or uncollected funds, known as the "float," must be calculated and deducted from the balance to obtain a net usable balance. The net usable balance represents the amount available for use in earning assets, i.e., advances, investments, etc. The third and fourth calculations deal with the interest receivable on net usable funds and the expenses against that income. The result of the third and fourth calculations gives what is termed "the net earning credit rate," which is computed as under:—

Gross earning asset rate, say	%	4.5%
less 20 per cent. for Profit on balance	.9	
„ Conversion Costs	.7	
„ Custody of Funds	.3	
„ 25 per cent. for cash reserve	1.1	3.0
Net earning credit rate		1.5%

To arrive at the service charge for the month, the cheques drawn and deposited are charged at 2d. and 1d. respectively. Against this sum credit is given for the estimated earnings on the account on the basis of the net earning rate, as below:

	£	s.	d.
300 cheques at 2d.	2	10	0
480 cheques at 1d.	2	0	0
	4	10	0
less earning credit at 1½ per cent. per annum on average balance for the month of £2,000	2	10	0
Monthly charge	£2	0	0

Cost analysis plans as will be readily observed frequently involve complicated calculations, though the use of tables and slide rule systems eliminate many of the more laborious. In spite of the work entailed, the general opinion in the U.S. is that the results obtained from cost analysis charges more than justify their adoption, and their popularity is growing.

Pay As You Go

The pay-as-you-go plan is a fairly recent development in the field of service charges, being instituted in 1935. The main features of the plan are that no interest is allowed and no charge is made for maintenance. The minimum balance stipulation is waived, or if one is fixed the sum required is only nominal. The bank, however, make a charge for each cheque drawn or deposited, the charges varying from 2d. to 6d. per item. Some banks, however, operate the system by means of the sale of books of cheques at

say 10 cheques for 5s. The pay-as-you-go system has enjoyed great popularity and is still very much in favour with the small man.

Though service charges in the U.S. may appear to be high compared with British standards it must be remembered that there is no stamp duty payable on cheques. In addition to the charges already explained there are many other fees levied which have no counterpart over here. It is customary to make a

charge of about 1s. for cheques returned unpaid, stop payment orders and post-dated cheques presented, and 2s. 6d. on deposit accounts closed within 90 days. Charges of varying amounts are also made for ancillary services such as the safe custody of valuables, trade enquiries, etc.

In conclusion it may be said that in the U.S. the present position is that of a decided trend in favour of cost analysis charges. In other words, accounts are to be made self-supporting.

Reserves for Income Tax

By H. A. R. J. WILSON, F.C.A., F.S.A.A.

The treatment of reserves for income tax was the subject of an editorial in the April issue. The points discussed can usefully be illustrated with the assistance of hypothetical figures. Let us assume that a company commenced business on July 1, 1941, and that income tax remains at 10s. in the £. The position for the first ten years would be as shown in the table below. Excess profits tax is ignored, as its

introduction would keep the profits from violent fluctuations.

Three methods are disclosed:—

1. The "legal liability" method, from which it is apparent that if profits were distributed up to the hilt, the company would have difficulty in meeting its tax in 1947, 1948 and 1949.
2. "Tax on the Profits" method. This runs into

1	2		3	4	5	6	7	8	9	10	11		12						
Year to June 30	Actual Profits		Assessments within period of accounts	Tax Payable	"Legal" Reserve (3 Months)	Debit to P. and L. account on this basis	Excess of Profits over Assessments to date	Tax on Excess (desirable reserve)	Theoretical Debit to P. and L. account on this basis	Prudent debit to P. and L. account	Total provision in Balance Sheet	Recommendation in "Accounting Principles": provide both of the following:		Debit to P. and L. account					
									(a)	(b)		(a) Provision re fiscal year in which accounts end	(b) Reserve for tax on profits						
1942	4,000	1941-42	3,000	1,500	500	2,000	1,000	500	2,000	As in 9(a)	2,000*	2,000	2,000	5,500*					
1943	6,000	1942-43	4,000	2,000	500	2,000	2,000	1,000	3,000		1,500	2,000	3,000	3,000					
1944	10,000	1943-44	7,000	3,500	750	4,000	3,000	3,000	5,000		4,500	3,000	5,000	5,000					
	10,000		4,000	2,000		2,250	6,000		5,000										
1945	20,000	1944-45	11,000	5,500	1,250	6,250	9,000	5,000	10,000	9.500	5,000	8,000	8,000						
	16,000		6,000	3,000		3,500	10,000		8,000										
1946	36,000	1945-46	17,000	8,500	2,000	9,750	19,000	1,000	18,000					10,500	8,000	6,000	6,000		
	12,000		10,000	5,000		5,750	2,000		6,000										
1947	48,000	1946-47	27,000	13,500	1,500	15,500	21,000	-6,000	24,000	4,500	6,000	2,000	2,000						
	4,000		16,000	8,000		7,500	-12,000		2,000										
1948	52,000	1947-48	43,000	21,500	500	23,000	9,000	-5,500	26,000					26,000 † 2,000	2,000	500	500		
	1,000		12,000	6,000		5,000	-11,000		500										
1949	53,000	1948-49	55,000	27,500	125	28,000	-2,000	-1,900	26,500	28,000 ‡ 2,100	500	100	100						
	200		4,000	2,000		1,625	-3,800		100										
1950	53,200	1949-50	59,000	29,500	25	29,625	-5,800	6,500	26,600					30,100 7,000	3,600	100	7,000	7,000	
	14,000		1,000	500		400	13,000		7,000										
1951	67,200	1950-51	60,000	30,000	1,750	30,025	7,200	9,900	33,600	37,100	13,500	7,000	10,000						10,000
	20,000		200	100		1,825	19,800		10,000										
	87,200		60,200	30,100		31,850	27,000		43,600					47,100	47,100				

NOTES

- * Tax for first year is not usually paid until after its end.
- † In addition to tax payable for 1941-42.
- ‡ A debit balance would not be carried forward: £2,000 would be debited to P. & L. %.
- || £2,100 would be debited.
- || No adjustment is desirable.
- || See (3) in text of article.

difficulties in 1948 and 1949 (see column 9 (b)), and is only "put on its feet" after a "bad spell."

3. The method recommended in "Accounting Principles." This has been shown as making the adjustment in the first year to emphasise the problem, viz., that to provide for tax for the year of assessment in which the accounts end, plus estimated tax on the profits of those accounts, which will be payable in the future, requires an overcharge in the early years.

The recommendation that "the charge for income tax should be based on the profits earned during the period covered by the accounts" does not, in itself, go so far as this; it is satisfied by method (2), but method (2) does not go far enough, having regard to the aim in view: to ensure that out of each set of profits there is retained enough to meet the tax they will attract. The building up of the reserve is mentioned in the Institute's recommendations, and in a case such as this would have to be spread over the early years.

It is not clear that the recommendation of the

penultimate paragraph of the editorial in the April issue would give a satisfactory result. On the same figures, the position would then be:—

	Legal Liability	Tax on actual Profits	Profit & Loss Debit
	£	£	£
1942	2,000	2,000	2,000
1943	2,000	3,000	3,000
1944	2,250	5,000	5,000
1945	3,500	8,000	8,000
1946	5,750	6,000	6,000
1947	7,500	2,000	7,500
1948	5,000	500	5,000
1949	1,625	100	1,625
1950	400	7,000	7,000
1951	1,825	10,000	10,000
			£55,125

If the proposal is to reserve for the difference in any year in which the actual profits exceed the legal liability, and draw on that reserve in any year in which the reverse subsequently arises, it takes us back to method (2).

LETTER TO THE EDITOR

Reserves for Income Tax

SIR,—I have read with interest the article upon the above subject in your April issue. As the argument developed in the article appears to me to be founded on a misunderstanding of the recommendations of the Institute of Chartered Accountants, will you allow me respectfully to submit my observations?

In the first place, it will be agreed that recommendations III (2) (b) and (5) make it clear that provision for the estimated future liability to income tax is, in the Council's opinion, a voluntary provision at the discretion of the directors. It is, in fact, merely a question of financial policy. The reasons for the recommendation of the adoption of this policy, it seems to me, are exactly in line with the basic reasons which led to the adoption of the "Pay as You Earn" legislation under Schedule "E."

The problem arises solely from the fact that Schedule "D" assessments are based upon the previous year's trading results, and therefore if, for example, in 1942 a company earned a profit of £100,000, followed in 1943 by one of £5,000, the income tax burden upon the year 1943 would be overwhelming if only the legal liability had been provided for in 1942, and the company might experience great difficulty in financing this heavy income tax payment.

These circumstances are an unescapable fact arising directly out of the method of assessment, and the only certain means of making sure that no such financial difficulties shall arise is to follow the Institute's recommendation and hold back out of available profits the estimated future liability to income tax.

As I understand it, the Institute's recommendation is put forward as representing the soundest financial policy, and it is not suggested for one moment that it should be considered compulsory.

So far as the profit and loss account is concerned, when the change is first made one year will have to bear income tax for two years, but thereafter each year will bear only the estimated income tax upon the results of that year.

Regarding the balance sheet, in accordance with

recommendation (5), "any provision for (or in excess of) the estimated future liability to income tax in respect of the fiscal year commencing after the date of the balance sheet should not be included with current liabilities but should be grouped with reserves or separately stated as a deferred liability and suitably described."

I cannot therefore understand how it can be said that the adoption of the Institute's recommendation could create "what may well be a misleading item in the balance sheet." Many companies will, no doubt, find it impossible to face the double burden of income tax involved in the change-over, but in the cases where this can be done could it be denied that that is the soundest financial policy? If so, should it not be regarded as the best practice?

It may be that I have misunderstood the argument put forward in your article, and that what it means is that the counsel of perfection is not always attainable in practice. If that is the argument, then all will agree.

When, after the last war, industrial profits fell suddenly and extensively, all of us who were then in practice will remember many cases where acute financial difficulties arose owing to shortage of funds wherewith to liquidate the heavy income tax demands. It was that experience that convinced me that the only sound policy was to hold back profits to cover the estimated future liability to income tax, and it is for this reason that I find myself in entire agreement with the Institute's recommendation upon this point.

I am, Sir, Yours faithfully,

F. R. M. DE PAULA.

Taunton,
April 17, 1944.

DEFERMENT OF CALLING UP

The following statement has been made by the Ministry of Labour and National Service:

"Men who volunteer for lorry-driving or for the manning of small craft for the Royal Navy will not lose deferment of calling-up which has been granted to them in respect of their full-time work. Employers, therefore, may permit men to volunteer in the knowledge that their deferment will not be affected."

War Service Candidates

Society of Incorporated Accountants: Concessions to Articled Clerks and to Special Bye-Law Candidates in respect of War Service

The Council has approved the following facilities to Articled Clerks and Special Bye-Law candidates whose training has been interrupted or the commencement of whose training has been deferred owing to War Service. "War Service" means service in H.M. Forces or in other forms of full-time national service during the war period.

Articled Clerks

1. War service may be accepted as equivalent to service under articles, subject to a minimum period of professional service of three years (or two years for University graduates), plus any period by which the articled clerk's age at the date of demobilisation is under 21 years.

2. An application by a new candidate to serve a reduced period of articles must be made within twelve months of demobilisation.

3. Where the period for which articles were entered into has expired before the date of demobilisation, any subsequent professional service required to complete the appropriate minimum period may be with the principal named in the articles or—at the discretion of the Examination and Membership Committee—with another member of the profession in public practice.

4. A clerk who entered into articles before war

service may be exempted from the Intermediate Examination. The Final Examination must be passed before admission to membership, and a candidate is expected to remain in the profession until he has passed the Final Examination.

Special Bye-Law Candidates

5. The period of nine years' service in the profession prescribed in Bye-Law 11 may be reduced by the period of war service, subject (i) to a minimum of five years where a candidate passed or was exempted from the Preliminary Examination before December 31, 1943, and (ii) to a minimum of six years in other cases. A further reduction of one year may be granted to University graduates.

6. A candidate who had completed two years' service in the profession before war service and had passed or obtained exemption from the Preliminary Examination before December 31, 1943, may be exempted from the Intermediate Examination.

Preliminary Examination

7. Exemption from the Preliminary Examination may be granted in appropriate cases. The Examination and Membership Committee may require applicants to attend for interview and to take a short written test.

Taxation Notes

Prisoners of War

A British prisoner of war is credited with his pay as if he continued to serve. Any advance of pay made to an officer by the enemy Government will be deducted from his credits. N.C.O.s and men only receive pay from the enemy Government for work done, and therefore their service pay requires no adjustment. Allowances to wives, etc., continue.

The Revenue endeavour to make as accurate as possible the deductions from the credits on account of income tax, by referring to allowances claimed in past returns and any information supplied by accountants, relatives, etc.

If the prisoner is held to be non-resident, his allowances will require to be apportioned under Section 24, Finance Act, 1920.

The question whether a prisoner of war is to be treated as not resident or as not ordinarily resident in the United Kingdom for income tax purposes is decided by reference to the tests normally applied in the case of a person who has left this country for service with H.M. Forces abroad. Thus, if a prisoner of war maintains no residence in the United Kingdom and his absence from the United Kingdom (including his absence on service abroad immediately prior to his being taken prisoner of war) has extended beyond a complete income tax year, he is treated as not resident and not ordinarily resident for the whole of the period of his absence abroad. If a prisoner of war maintains a residence in the United Kingdom and his absence from the United Kingdom extends beyond a complete income tax year, he is treated as not resident for the

whole period of his absence except for any year (or part of a year, i.e., the year of departure or return) in which he visited the United Kingdom, and he is treated as not ordinarily resident if his absence extends over a period of at least three years.

Where a prisoner of war falls to be regarded as not ordinarily resident, any income which he receives from British Government securities within Section 46 (1) Income Tax Act, 1918, is exempt from liability to income tax for the period of his absence from this country. Subject to the conditions as to length of absence abroad referred to above, exemption applies as from the date of departure from the United Kingdom.

It will be observed that, generally speaking, relief as a non-resident is granted for the whole period of absence from this country, provided that it extends over at least one whole income tax year.

If a residence is maintained in this country during his absence, a prisoner would not be regarded as *not ordinarily resident* unless his absence extended over a period of three years. Exemption from tax on British Government securities is only given to persons regarded as not ordinarily resident.

Dominion War Damage Schemes

With reference to the note appearing in our January issue, we understand that instructions have now been issued to the effect that war-damage contributions payable in Australia may be allowed in computing profits for the purpose of United Kingdom taxation, and that the case of similar payments in New Zealand is under consideration.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Sur-tax—Tenant for life—Accumulation of income during minority—Under Section 31 (2) of Trustee Act, 1925, minor entitled to accumulations on attaining majority, but had he died before then the accumulations fell to be treated as accretions to trust capital—Whether appellant entitled to accumulations of income during minority.

Stanley v. C.I.R. (C.A., January 24, 1944, T.R.3) was noted in our issue of December, 1943. In the Court of Appeal the decision of Macnaghten, J., in favour of the Revenue was reversed, Lord Greene, the Master of the Rolls, giving the only judgment. He held that Section 31 (2) of the Trustee Act, 1925, had changed the law. The four "additional" assessments appealed against were for the years 1933-34 to 1936-37, and appellant attained his majority upon October 23, 1936. Lord Greene pointed out that an additional assessment could not be made for a year "unless an original assessment could lawfully have been made in respect of that year. There can be no such thing as a conditional assessment." Under the new rule, if the infant died under twenty-one his interest in the surplus income was destroyed and for all practical purposes he was in precisely the same position as if his interest were contingent. But, even if it were held that the interest of the infant during minority was technically a vested interest, the surplus income was not the income of the infant during his minority, and he could not be assessed to sur-tax in respect of income which might never in truth be his. The Crown's claim would have been equally good if the appellant had died in infancy and the assessments had been made on his legal personal representatives. A further point was the question how the tax could be paid in view of the rights of the remainderman under Section 31. Leave was given to appeal to the Lords.

The reasoning of the judgment, which deserves to be studied, is convincing.

Excess profits tax—Standard period—Manufacturing company—Complete accounts, after stock-taking, made up at the end of each half-year—Audited and approved at directors' meetings—Annual general meetings October/November—Shareholders' accounts cover each 12 months ending June 30—Obtained by aggregation of half-yearly figures—Whether accounts "made up" for successive periods of 12 months—Finance Act, 1937, Section 20 (2), Finance (No. 2) Act, 1939, Sections 13 (4), 14 (1), 22 (b).

The case of *Jenkins Productions, Ltd. v. C.I.R.* (C.A., March 17, 1944, T.R. 45) was noted in our February issue. Macnaghten, J., had decided in favour of the company and had held that in the exercise of their discretion under Section 20 (2) (c) of the Finance Act, 1937, the C.I.R. were bound to select the two half-years of 1935. In the Court of Appeal this decision was reversed unanimously. Lord Greene, M.R., gave the only judgment.

He held that in the case of a company the expression "made up" must refer to the accounts for its financial unit of time, submitted to the general meeting with the auditors' report to the members upon the accounts and balance sheet then laid before the company. Upon the precise question of law which had been argued, the decision of Macnaghten, J., was reversed, but, so far as the position as to the assessment was concerned, the Court adjourned the rest of the hearing because, assuming the company to be wrong in its contention under the Finance Act, 1937, Section 20 (2), the case was one where the C.I.R., in their discretion they

thought fit, might under the concluding words of the proviso to sub-section (1) of Section 14 of the Finance (No. 2) Act, 1939, direct that a different form of apportionment should be made, so that the profits of the standard period should not be arrived at by taking half the profits of the year 1934-35 and half the profits of the year 1935-36.

Lord Greene said that the whole object of the proviso to Section 14 (1) was to arrive at the true profits of the standard period and that the rule of thumb laid down to deal with cases where the accounting period did not coincide with the calendar year was thought, in ordinary circumstances, sufficiently accurate. But here was a case where it could be demonstrated without the possibility of doubt what were the profits of 1935, the standard period. It seemed to the Court that the C.I.R., in considering whether they should make a direction under the proviso to Section 14 (1), ought to bear in mind the paramount object of the machinery, which was to ascertain what were the real profits of the standard period. Here, they had a method which was absolutely accurate and one to which in the particular circumstances of the company they ought to pay serious attention. *The Court also held that the duty of the C.I.R. in deciding whether to exercise their discretion ought to be performed in relation to the facts of each particular case and not by reference to some supposed rule or precedent adopted for convenience.* The Attorney-General had undertaken that the C.I.R. would reconsider the matter and had said that they were always glad to have guidance from the Bench upon a matter affecting their duties. In the circumstances, the rest of the case would stand over until the Court was informed of the result of reconsideration by the C.I.R.

There is one all-important fact to be borne in mind with regard to the case, namely that the half-yearly accounts were not specially prepared for taxation purposes.

PUBLICATIONS

A Short Treatise on the Law of Bills of Exchange, Cheques, Promissory Notes, and Negotiable Instruments Generally. By Bertram Jacobs, LL.B. Fourth Edition. (Sweet & Maxwell, Ltd., London. Price 21s. net.)

The practical interest in the subject of this book is now confined almost entirely to cheques, but the general reader will find great interest in the description of the development of the general law relating to bills of exchange. The fourth edition, which has an appendix of notes on the emergency legislation and a reprint of the Bills of Exchange Act, 1882, with cross references to the text, can be recommended as a useful reference book.

Tolley's Complete Income Tax, Sur Tax, etc., Chart-Manual, 1943-44. By Charles H. Tolley, A.C.I.S., F.L.A.A. (Waterlow & Sons, Ltd., London. Price 5s. 6d. net.)

The twenty-eighth edition of this work represents the product of as many years' enthusiastic annotation of income tax law and practice. No effort has been spared to make it complete and compact, and the ingenuity of the arrangement of the matter is remarkable. The experienced will continue to find this manual invaluable as a reminder and as a stimulating guide to fuller references.

Company Law Amendment Committee

Summary of Minutes of Evidence—V

We continue our summaries of the written and oral evidence submitted to the Company Law Amendment Committee. The full Minutes of Evidence are published by H.M. Stationery Office, and perusal of these is recommended. The first nine days' evidence was summarised in our issues for December, 1943, and February, March and April, 1944. We present below a statement of the chief points raised on the tenth and eleventh days, January 21 and 28, 1944.

Committee of London Clearing Bankers

The tenth sitting day of the Committee was bankers' day, with Sir Charles Lidbury and Mr. H. B. Lawson, on behalf of the Committee of London Clearing Bankers, being the first to give evidence. The memorandum which they were supporting had suggested that, if investors were thought to be influenced by the appearance of the name of a bank upon a prospectus, a disclaimer might be printed on each prospectus, or the name of the bank should appear only with, and in the same type as, the names of the brokers, solicitors, auditors, secretary, and registered office. In evidence, Sir Charles Lidbury thought that this might lead to disclaimers being entered in respect of other people, such as the lawyer and broker, and that in the end the prospectus would be full of disclaimers. He did not object to the suggestion that the name of the bank should be omitted from the prospectus and printed only on the application form. He was not in favour of the suggestion that companies should be forbidden to proceed to allotment within, say, seven days of the date of publication of the prospectus, pointing out that, where the issue was known to have been over-subscribed, applications would pile up from other people anxious to participate for the sake of the premium. Sir Charles handed in an American prospectus which, though abridged, ran to 52 pages. This drew the comment from Mr. A. F. B. florde: "Surely by the time you have read the prospectus, the date on which the list will be closed will have passed?"

Supporting the suggestion in the memorandum that provisional permission to deal, subject only to allotments being made upon a satisfactory basis, should be granted in advance of the issue of the prospectus, Sir Charles declared that the present arrangements of the Stock Exchange have the effect of letting the investor "in" and then "keeping him in." He agreed, as a way out of difficulties that were indicated, to the chairman's suggestion that unless permission to deal were granted, the company should be bound to cancel the allotments and return the moneys; in other words, the money would have to go to a special account and be kept available for return unless permission to deal were granted. Dealing with the position of trustees, Sir Charles thought it reasonable that they should be relieved of everything except their own wilful negligence and wilful default. Asked later to suppose that supplemental indemnities were to be abolished, he declared roundly: "Then I shall not be a trustee." The memorandum contained some interesting statistics regarding the volume and nature of the nominee business handled by the banks, and Sir Charles emphasised that, as the law stands, a nominee cannot split his vote.

On the question of accounts in general, he held that statutory rigidity would not be desirable. As to bank accounts, Sir Charles was asked: "Is the profit that you show year by year what you would consider the year's profit?" The reply was: "It shows the proper trend. But the year's profit does not have impinging

upon it the operations of the 'contingencies,' either credit or debit. These, I think, would be improperly shown in an annual profit and loss account, and detrimentally so for the body politic." Asked whether the public was not well aware that in times of depression the banks made exceptional losses, Sir Charles replied that profits did not all drop in the same year and in the same way on each individual bank. Another point put to him was whether to give special treatment to banks on this matter of accounting disclosure might not be to draw them into the political limelight. To this the retort was: "There will always be attacks on the banks and always without justification and always without success."

General Managers of the Scottish Banks

In general, Mr. N. L. Hird and Mr. George Mackenzie, for the General Managers of the Scottish Banks, agreed with the evidence submitted by Sir Charles Lidbury and Mr. H. B. Lawson. Mr. Hird was against a proposal that the total remuneration paid to directors, including the remuneration of whole-time employee-directors, should be disclosed. The general trend in recent years, he argued, had been to appoint as directors persons who were employed in the business. If such a proposal were carried through, employees would decline to be directors, with the result that there would be an increase in "guinea-pig" directors. Discussing private companies, he said: "We do not want to expose the private affairs of people, but we do feel they ought to pay something [in the shape of a measure of publicity] for the privilege of being limited in their liability."

Invited to reconcile the recommendation that a company should be compelled to disclose the undrawn profits of subsidiary companies with the fact that in numerous other ways—e.g., by transferring undisclosed provisions to reserve and including abnormal items of income and expenditure—the profit and loss account would still fail to give a true indication of the profits of the year, Mr. Hird said: "I still think the practical effect is to get a sufficiently true picture so far as the shareholders are concerned."

Captain H. N. Hume

The chief passage in the memorandum submitted by Captain H. N. Hume, the first witness to be called on the eleventh day, declared that no attempt should be made to lay down in greater detail than at present the information which must be set out in a prospectus or offer for sale. Captain Hume recommended that before an issuing house could undertake issue business, it should be specially registered with the Board of Trade in the same way as an insurance company, including the making of a substantial deposit, and that in addition, or as an alternative, the issuing house might be required to provide a banker's guarantee in support of its contract of underwriting in all cases where the amount of its commitment in connection with the issue exceeded the amount of the net assets of the issuing house.

In examination he said that the amount of the deposit

he had in mind was between £20,000 and £50,000, and he added that this should be required from everybody, whether a limited company or a private firm. He admitted that there were a lot of people who were irresponsible in the sense of the quality of financing they go in for, but who nevertheless could, at times when they were flourishing, produce £20,000 without much trouble, and agreed that this strengthened his advocacy of an association of issuing houses. He was in favour of stipulating that a prospectus must be published seven clear days before the lists closed, and that applications when they were made should be irrevocable. This would place the underwriters at risk for a total of about ten or eleven days, but Captain Hume did not object to that.

National Association of Trade Protection Societies

Among the many points made in the memorandum put in by the National Association of Trade Protection Societies was the disadvantage of the practice of banks and others making advances to companies on a special wages account in cases where at the time the advance was made the question of liquidation may only have been in the background. This, it was contended, enabled those advancing money to maintain a preferential position in circumstances quite outside the intention of

Section 264, and it was suggested that preference should only be given where the money had been advanced for the purpose within one month of the liquidation. In examination, Mr. Charles Greig said that the Association would accept "a reasonably short time limit" in place of the stipulated month, and Mr. Arthur T. Eaves declared that the opening of a wages account was one of the first signs of trouble. Mr. Eaves admitted that the Association's view was that where a creditor had been preferred, the onus should be upon him to show that there was no intention of fraud.

Another recommendation was that creditors should, where their interests are concerned, always have the power to control the liquidation of a company in cases where they think fit and should not be prevented from exercising such power simply by the fact that the directors have formed the opinion that the creditors will be paid in full. Mr. T. Fleming Birch thought that in a members' voluntary winding-up, the realisation of the assets did not receive the same care and thought as in a creditors' liquidation; but he admitted that a creditors' liquidator aims at getting the creditors out as soon as possible, and therefore might be inclined to realise the assets quickly and so sacrifice some equity which might remain in the assets if he nursed them longer.

LAW

Legal Notes

COMPANY LAW

Reduction of capital—Companies Act, 1929, Section 46 (4).

In *Re Serpell & Co., Ltd.* (1944, W.N. 93), the facts were that the original capital of the company was £210,600, consisting of 110,000 7 per cent. redeemable preference shares of £1 each and 100,000 £1 ordinary shares; 24,500 of the preference shares were redeemed before April, 1939. At an extraordinary meeting of the company held on April 28, 1943, it was resolved "that the capital of the company, which now consists of £185,500, divided into 85,500 7 per cent. redeemable preference shares and 100,000 ordinary shares of £1 each, all fully paid up, be reduced to £100,000, divided into 100,000 ordinary shares of £1 each, and that such reduction be effected by extinguishing the said redeemable preference shares." A petition was presented by the company, in which the approval of the court to the reduction was sought. The question arose whether redeemable preference shares, which had been redeemed subject to the provisions of Section 46 of the Companies Act, 1929, continued to form part of the nominal capital of the company. Uthwatt, J., said that, having regard to those provisions, the effect of the redemption of preference shares was not merely to extinguish them as issued and paid-up capital, but also to get rid of them as part of the nominal capital. The minute would, therefore, be framed on the basis that, before the resolution for reduction was passed in 1943, the capital had already been reduced by £24,500.

EMERGENCY LEGISLATION

Liabilities (War-time Adjustment) Act, 1941—Only debtor may be present at preliminary hearing.

In *Re Evans and Evans* (1944, 1 All E.R. 348) the Court of Appeal decided a point of general importance under the Liabilities (War-time Adjustment) Act. Under the Rules appertaining to the Act, provision is made for two hearings of a debtor's application. This case has decided that the first, or preliminary, hearing is *ex parte*, and that only the debtor is allowed to be present. The

second hearing is *inter partes*, and it is only at that stage that creditors will normally attend. The respondent was the landlord of the appellants and had issued a writ against them for arrears of rent and possession; on the application of the appellants to the High Court, an order had been made staying the proceedings. In the meantime the appellants applied to the county court for a liabilities adjustment order and a protection order. After the first session of the preliminary hearing of the application, the registrar of the county court sent a notice of the proceedings, together with the date of the next hearing, to the respondent. Thereupon the respondent, by his solicitor, appeared at this adjourned hearing of the preliminary hearing; he produced certain evidence and was heard by the judge. In allowing the appeal and sending the matter back to the county court judge, the Court of Appeal held that (1) upon the true construction of the Liabilities (War-time Adjustment) Rules, both the "preliminary hearing" and also any adjourned hearings of a "preliminary hearing" of an application for a liabilities adjustment order are to be *ex parte*. Not until the second hearing, which takes place after the completion of the "preliminary hearing," are creditors entitled to be present and to address the court; (2) the irregularity of the procedure was sufficient to vitiate the proceedings, so that the case must be remitted to the county court judge for the hearing to be completed.

EXECUTORSHIP LAW AND TRUSTS

Will—"All my stocks and shares"—Government stock.

In *Re Everett, Deceased* (60 T.L.R. 223) the facts were: By her will dated March 14, 1942, the testatrix appointed executors and trustees, and bequeathed pecuniary legacies amounting to £770, as well as specific articles. She provided that she wished her trustees to sell her freehold premises "and all my stocks and shares" and to divide the net proceeds among four named persons, share and share alike. On April 25, 1943, the testatrix died, her estate then comprising the freehold premises and a number of

investments. Some investments were stocks and shares in limited companies; the others were redeemable debenture stock in the London Power Co., Ltd., holdings in public utility bodies, and various Government securities. The question arose, which of the investments were included in "all my stocks and shares." Cohen, J., said that if he had to construe the will apart from authority, he would conclude, on finding the word "stocks" with the word "shares," that the words meant stocks and shares of a limited company. But the matter was not free from ambiguity and he could look at the circumstances. The estate was of such a character that if he construed the word "shares" as of itself including stock in the widest sense, so that all the investments passed under the gift, he would be deciding that the testatrix, by using those words, had disposed of all her personal estate save cash in hand and at the bank and goods in the house. The testatrix, however, had also bequeathed substantial legacies and could not have intended to bequeath all her investments to the specific legatees of all her stocks and shares. The natural meaning of "stocks and shares" was stocks and shares in limited companies, and the only use that he made of surrounding circumstances was that, in the present case, he found nothing in them to extend that meaning. Accordingly, none of the investments in question was included in the bequest of "all my stocks and shares."

Will—Annuity "free of all deductions"—Income tax not a deduction.

There is a series of decisions establishing that where a testator makes a gift "free of all deductions," income tax is not a deduction. Therefore, in the absence of an intention expressed in the will that income tax is to be treated as a deduction, the annuitant must bear the tax. In *Re Hooper, Deceased* (1944, 1 All E.R. 227), Uthwatt, J., followed this principle, thereby differing from a decision of Bennett, J., in *Re Coulshaw* (1939, Ch. 654). In the present case the testator gave, free of all duty, to his secretary an annuity of £520, "to be paid free of all deductions whatsoever." In the circumstances, the phrase had no application at all, but it is a maxim that "nothing can be more mischievous than to attempt to wrest words from their proper and legal meaning merely because those words are superfluous." Therefore, said Uthwatt, J., it is a sounder course to treat the phrase as meaningless rather than, in an instrument drawn in technical terms, to attribute to it a meaning which it does not bear in law and which has consistently been denied to it by authority for nearly a century. He said that in *Re Coulshaw*, Bennett, J., in construing a will the relevant terms of which were indistinguishable from those in the present case, came to an opposite conclusion. In that case, however, there was no citation of authority. So that, although *Re Coulshaw* can only be definitely overruled by the Court of Appeal, it is now established that it is inapplicable as an authority and will not be followed. Uthwatt, J., added that the method of collection of income tax by deduction at the source had been greatly extended, and thus the association of income tax with "deduction" would become more direct and obvious to many people. But that would not alter the legal meaning of "without deduction." If a testator meant a specified annuity to be received clear of income tax, he should say so in express terms and not use a general formula.

Charity—Validity of gift for furtherance of psychological healing.

Charitable gifts by testators often come to the Court

for decision as to their validity. The principle is that where the language of the gift upon its true construction makes it possible for the subject-matter of the gift to be applied for non-charitable purposes, that gift is not a good charitable gift even though the greater part of the purposes may be truly charitable. In *Re Osmund, Deceased* (1944, 1 All E.R. 262), the sole question was whether the language used by the testatrix made the gift obnoxious to that rule. Bennett, J., had decided that it did and that the gift failed. But the Court of Appeal reversed the decision. The testatrix left her whole estate to trustees "upon trust in their absolute discretion to apply the same to the medical profession for the furtherance of psychological healing in accordance with the teaching of Jesus Christ." Bennett, J., held the gift invalid because it would be permissible for the trustees to pay a doctor to go and cure, by means of psychological healing, some extremely wealthy man suffering from chronic dyspepsia. But the Court of Appeal did not agree with that reasoning. The phrase was not "for the provision of psychological treatment," but for "the furtherance of psychological healing." One of the principal ways in which diseases could be studied and the art of healing furthered was by treatment, study and recording of individual cases, and it was quite irrelevant that the individual patients might benefit.

Charitable gifts—Uncertainty as to persons to benefit not fatal to gift.

Where a testator makes a gift which is for a charitable purpose, in the strictly legal sense, then whether the purpose expressed is general or particular, the gift will not fail for uncertainty. But in the case of a non-charitable gift, if a condition is attached which is uncertain, the gift will fail. In *Re The Trusts of the Will of B. K. Gott* (1944, 1 All E.R. 293), this principle was affirmed by Uthwatt, J. By her will the testatrix bequeathed to the Council of the University of Leeds a sum of money upon trust to utilise the income for the creation of scholarships in connection with the University, which should be constituted by the Council and should be for the benefit of one or more male students, of British and Christian parentage, from certain universities desiring to commence, or who should have commenced, some form of post-graduate study at Leeds University, such scholarships to be created for such objects and purposes and for such periods as the Council should determine in its discretion. It was contended that the gift was void in that it was for a particular charitable purpose not defined with certainty. It was argued that there was no general, but only a particular, charitable intent extending only to students with the qualifications shown in the will, and that the words "of British and Christian parentage" had no certain meaning. Uthwatt, J., held that this was a good charitable gift, and treated the trust as one for the benefit of a class not exactly defined in the will. The particular mode of application could, if necessary, be directed by a scheme to be approved by the court.

BOOKS RECEIVED

Burke's Loose-Leaf War Legislation. Edited by Harold Parrish, Barrister-at-Law. 1943 Volume, Part 16; 1943-44, Part 1. (Hamish Hamilton (Law Books), Ltd., London. Price 6s. net each part.)

Burke's Encyclopædia of War Damage and Compensation. Supplemental Parts 14 and 15. (Hamish Hamilton (Law Books), Ltd., London.)

FINANCE**The Month in the City****Markets Remain Firm**

With "Salute the Soldier" weeks in full swing, and with the Budget and perhaps the opening of a second front impending, it is remarkable how firmly stock market prices have been maintained during the past month. The amount of business has been subnormal, but quotations, particularly in certain sections of the industrial market, have continued to advance. The excitement which has taken place in the shipping market on the discovery that "break-up" values become less academic when deals are actually in the offing is discussed in a note below. The other main centre of interest has been in steel constructional companies which might be affected by the programme of prefabricated house-building announced by Mr. Churchill. Hitherto the yield margin between steel shares and industrial equities generally has reflected the suspicion that heavy industry will have the same sort of difficulties to meet after this war as it did after the last. In view of the fact that the industry's financial position is stronger on this occasion, and that it will be less burdened with excess capacity, it has often been argued that the risk was over-discounted. At all events the Prime Minister's statement that the housing programme would absorb the industry's overflow and expansion for war purposes has been interpreted cheerfully, and share prices have risen in the case of the companies most likely to benefit. Neither the gilt-edged market nor the money market has suffered any inconvenience from the competition of "Salute the Soldier" week in London—and now in the provinces. With increasing experience the authorities have been able to handle this rather artificial performance with great dexterity. This time the London target of £165 million was only exceeded by the narrow margin of half a million pounds, but it was, of course, exceeded. Some idea of the machinery whereby this great transfer of subscriptions was accomplished without materially reducing the volume of credit or the amount of funds going into the gilt-edged market can be gained from the Exchequer debt statement for March. This shows that no less than £102 million of Treasury deposit receipts were encashed by the banks prior to their maturity for the purpose of reinvestment in Government loans.

Shipping Share Values

Lampert & Holt Line have recently turned down an offer by United Molasses to purchase their shares for about 22s. 6d. each. Just before the announcement of the offer these shares were standing at 17s. 6d., having already risen quite substantially on rumours of what was impending. This big discrepancy between what the directors of United Molasses thought the shares were worth and what the market thought they were worth has drawn renewed attention to the very high break-up value of shipping shares. In most sections of the market it is regarded as an anomaly if the price of a share falls below the amount of net liquid assets attributable to it. In the shipping group, however, this state of affairs is common, and the difference is very marked when total assets are taken into consideration. The peculiar liquidity of shipping companies is, of course, due to the loss of ships and compensating receipt of insurance moneys, but it is widely held that the resulting expansion in balance sheet totals does not justify a material rise in share values. The reason given for this view is that break-up values mean very little where a firm has no intention of liquidating, and that the amount of cash held by the shipping companies, large though

it is, will be insufficient for the replacement of all tonnage lost during the war. It is true enough that break-up values should not be taken too literally, but the size of a company's assets nevertheless has some connection with its rate of earnings. What is really at issue between the two schools of thought is the prospect for earnings after the war. One view is that the trading outlook is so poor as to offset the benefit of expanded assets. The other is that such extensive resources cannot fail to result in reasonable earnings. The various arguments cannot be dealt with here, but from the purely financial aspect it seems unduly defeatist to suppose that the shipping companies will be able to earn no more on their resources after the war than they can now earn on gilt-edged investments. Many shipping companies have doubled their balance sheet totals over the past five years, which means that if profits after the war are to be lower than they were before, earnings per unit of assets must be more than halved. The prospect can hardly be as bad as this, unless one assumes that shipowners are going to squander their resources in uneconomic ship construction. Actually this marked rise in break-up values is a special case of the general inflation of values brought by the war. It has become more noticeable with shipping companies than elsewhere because of their enforced liquidity. It remains to be seen whether the difficult trading conditions expected in some quarters will be sufficient to offset the favourable implications of this rise in shipping company assets.

The Price of Gold

The gold which the authorities are selling in India to combat inflation is fetching a price which is nearly twice as high as the British Government's official buying price of 168s. per ounce. This state of affairs has led to a request on the part of the South African Government that it should be allowed to participate in the premium, and an agreement has now been reached whereby the Union will share in the profit to the extent justified by its import requirements. There have been some rather wild expressions of opinion on the matter, and one South African spokesman has advanced the view that the Union should break away from a fixed gold price altogether and sell its output for what it would fetch in the free market. This course would be a very doubtful advantage. In normal times the demand for gold is mainly for monetary purposes, and its price is determined by the fact that the United States Treasury is willing to pay \$35 an ounce. In normal times, moreover, when confidence prevails, it is doubtful whether the hoarding demand which is now driving the price up to such a fantastic height would be sufficient to absorb world output. The present price in India is, in fact, purely artificial. It results from the fall in the internal purchasing power of the rupee, and if this depreciation were allowed to be reflected in the exchanges it would soon wipe out the profit on sales of gold in the free market. Apart from all this, the profit which the British Government is making should be considered in conjunction with the fact that the proceeds are used for war expenditure in India at prices which are kept high by the decision to maintain the rupee-sterling exchange rate. Altogether, the case for a revision of the gold agreement is not particularly strong. The market for gold mining shares gave a brief response to the news that the South African Government will participate in the premium, but it remains to be seen how much the concession will amount to, and to what extent it will be passed on to producers.

Points from Published Accounts

Cunard Steam Ship

Until this year the tax position of Cunard Steam Ship has been obscure. In 1942 the main debit to profit and loss account was represented by "office, agency, law and other expenses, superannuation fund, interest, taxes, etc." There was no means of determining either the amount or the character of the provision for taxes included in the omnibus figure of £459,484, and matters were complicated by a second debit of £100,000 to reserve for taxation. With the 1943 accounts, the "taxes" item in the main debit has been segregated, the general expenses being shown at £53,805, against £61,880 for the previous year, and provision for income tax being shown at £412,967, against £397,605. Further, what was described a year ago as an appropriation to reserve for taxation now appears as "provision for taxation," under which heading another £100,000 is earmarked. The chairman, in his statement, says: "I would like to be able to say now that we shall not need the £100,000 provided in the profit and loss account for E.P.T., but the situation only enables me to say that I believe we have not under-provided." Apart from this incidental reference, there is nothing to show that the "provision for taxation" relates specifically to E.P.T. It cannot, therefore, be said that the profit and loss narrative of itself makes matters as clear as they might be. Another criticism is that in the balance-sheet reserves and provision for taxation are grouped with creditors and open voyage accounts in a global entry of £651,324.

British Automatic Company

For the first time the British Automatic Co. publishes a consolidated balance sheet, one feature of which is that the excess of net tangible assets of subsidiaries over the book value of the shares held in those companies amounts, after deducting a reserve for losses incurred, to £5,111. This is a useful departure, but the profit and loss account might with advantage be rendered more precise. The profit from trading, including the profits earned by subsidiaries, is stated at £87,822, less a £15,000 reserve for deferred maintenance of machines. This allocation to specific reserve follows similar appropriations of £10,000 in both 1941 and 1942; but instead of standing at £35,000, the reserve, from which there have been no withdrawals, appears at only £22,500. The explanation is that although the £10,000 transfer made in 1941 was a net amount, the two later allocations have been gross sums. The deduction of income tax is recorded in the reserve entry in the balance-sheet, but the exact significance of the transfers from profit and loss would be more easily appreciated were they to be reduced to their net sums in the profit and loss statement.

Jeremiah Rotherham

The question of E.P.T. credits presents itself in the accounts of Jeremiah Rotherham, whose profit and loss account includes a credit of £56,206 representing surplus provision for previous periods now written back. Hitherto the company has not given any details of E.P.T. provisions. This time it has gone to pains to show the E.P.T. credit as a separate item, and to record the amount of the E.P.T. appropriation, of £32,000, made from 1943-44 profits. This is an improvement upon previous practice; but, curiously, the trading profit is still struck after deducting income tax, or rather, income tax on undistributed profits, since the company still adheres to its old method of showing dividend requirements at their gross amount. A maintained ordinary dividend of 5 per cent. is this

time accompanied by a bonus of 2½ per cent., requiring £15,000 gross, payable out of the surplus E.P.T. provision, and it is presumably because of their desire to take advantage of the opportunity presented by the special credit that the directors make £21,000 provision for future taxation. The effect of these transactions and their relation to the special credit might, however, have been presented more clearly by a different arrangement of the profit and loss account. The changes that have been made in the form of this account make it difficult to compare the latest results with those of the previous year. Just when the comparative figures which the company usually provides could have been of maximum value, they have been temporarily dropped. The board's attitude is defined in the chairman's statement, where Mr. Joseph Hockley notes that the balance-sheet has been drawn up on a "more modern and informative basis, in consequence of which we have omitted comparative figures on this occasion." The change in the method of presenting the accounts is reason not for dispensing with comparative figures, but for presenting an adjusted comparative statement so as to afford a true parallel. Among the useful improvements made in the balance-sheet is the segregation of freeholds from leaseholds. With the latter, as with fixtures and fittings and movable plant, furniture, etc., the cost value is shown, and then the depreciation accumulated to January 15, 1943, plus the past year's depreciation (shown separately) is deducted.

Fairey Aviation

Changes made in the method of presenting the accounts of Fairey Aviation are of interest to a circle far wider than that of the company's shareholders, for they constitute a powerful rejoinder to the argument, often heard, that it is against the national interest for armament enterprises to state their position in any great detail. There is a consolidated balance-sheet displaying the position of the parent company and its chief subsidiary, the Stockport Aviation Co., which shows, *inter alia*, that the trading assets of the two amount to £5,446,692, against £2,887,535 for the parent concern alone, but that the bank loan of £1,500,000 odd being employed by the latter is a full measure of the combined indebtedness to bankers. There is no consolidated profit statement, and in the parent's profit and loss account the gross dividend from the subsidiary is aggregated with the trading profit. But the tax on this dividend and provision for 1944-45 income tax liability on the rest of profits are now shown as a separate debit of £165,000. In addition, £117,500 of E.P.T. recoverable (after providing for income tax thereon) is credited to profit and loss, the chairman explaining that the company did not attain its standard profit for E.P.T. purposes. It would be going too far, however, to claim that the latest statement displays the E.P.T. position in full, for the comparative figure of 1941-42 trading profit presumably shows the surplus after deduction of E.P.T. It is one thing to divulge the trading profit while it remains in the E.P.T. zone, quite another to reveal it when it has passed outside that zone. If Fairey earnings exceed standard in the current year, the company will indeed be setting a valuable precedent should it disclose the gross figure.

The Board of Trade have appointed Mr. F. S. Tredinick to be Assistant Registrar of Companies and Assistant Registrar of Business Names in place of Mr. P. Eke, retired.

- The Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the wartime enactments and Orders which most concern the accountant. The fiftieth instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

ACTS

Disabled Persons (Employment) Act, 1944.

After a date to be fixed by Order in Council, an employer of twenty or more persons will be required, when filling vacancies, to employ a quota of persons registered as disabled.

Reinstatement in Civil Employment Act, 1944.

Persons who have served in H.M. Forces or have been compulsorily enrolled in certain civil defence services are given the right of reinstatement in their previous employment, so far as this is reasonable and practicable.

(See ACCOUNTANCY, February, 1944, page 84.)

ORDERS

PREVENTION OF FRAUD (INVESTMENTS)

No. 119. Prevention of Fraud (Investments) Act Licensing Regulations, 1944.

(See ACCOUNTANCY, April, 1944, page 126.)

PRICES OF GOODS AND SERVICES

No. 11. Utility Apparel (Maximum Prices and Charges) Order, 1944.

Revised maximum prices for certain utility garments are prescribed by the substitution of Related Schedules Nos. 2A and 3A for Nos 2 and 3, and by the addition of Related Schedule No. 9 (Merchant Navy clothing).

No. 140. General Apparel and Cloth (Maximum Prices and Charges) Order, 1944.

No. 147. Perambulators (Maximum Prices and Charges) Order, 1944.

Previous Orders are revoked and their provisions consolidated, with some amendments.

No. 161. Basketware (Maximum Prices) Order, 1944.

No. 200. Imported Wireless Receiving Sets (Maximum Prices) Order, 1944.

No. 225. Utility Upholstery Cloth (Maximum Prices) Order, 1944.

Fixed maximum prices are prescribed for certain wireless receiving sets and for potato baskets, and percentage additions to cost for other basketware and for upholstery cloth sold by wholesalers.

(See ACCOUNTANCY, April, 1944, page 143.)

TRADING WITH THE ENEMY

No. 76. Trading with the Enemy (Authorisation) Order, 1944.

Trading is permitted with persons in the territory formerly known as Italian East Africa, Cyrenaica, and Tripolitania.

No. 100. Trading with the Enemy (China Custodian) Order in Council, 1944.

Assets held by the Custodian of Enemy Property for China are to be transferred to the Custodian of Enemy Property for England.

No. 399. Trading with the Enemy (Specified Persons) (Amendment) (No. 4) Order, 1944.

A consolidated list is given of persons with whom dealings are prohibited. Previous Orders are superseded.

(See ACCOUNTANCY, April, 1944, page 144.)

WAR RISKS INSURANCE

No. 162. War Risks (Commodity Insurance) (No. 1) Order, 1944.

The premium under the commodity insurance scheme for the three months commencing March 3, 1944, is 5s. per cent.

(See ACCOUNTANCY, December, 1943, page 59.)

Society of Incorporated Accountants

EXAMINATIONS

Applications for the next examinations of the Society of Incorporated Accountants must reach the Secretary not later than Tuesday, May 23. The Final Examination will be held on August 2, 3 and 4, 1944, the Intermediate on August 3 and 4, and the Preliminary on August 2 and 3. The governors and headmaster of Taunton School, Somerset, have again granted facilities for candidates from the South of England and Wales to be examined and to reside in the school. Candidates living in Northern England will sit on this occasion at the College of Technology, Manchester, and at the Church Institute, Leeds, and are requested to make their own arrangements for accommodation. There will also be the usual centres for Scottish and Irish candidates at Glasgow, Dublin and Belfast.

COUNCIL MEETING

FRIDAY, MARCH 31, 1944

Present: Mr. Richard A. Witty (President) in the chair, Mr. F. Woolley, J.P. (Vice-President), Mr. F. J. Alban, C.B.E., Mr. A. Stuart Allen, Mr. R. Wilson Bartlett, J.P., Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. W. Norman Bubb, Mr. W. Allison Davies, C.B.E., Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. Alexander Hannah, Mr. C. A. G. Hewson, Mr. Walter Holman, Sir Thomas Keens, D.L., Mr. Edmund Lund, M.B.E., Mr. Henry Morgan, Mr. Bertram

Nelson, Mr. R. E. Starkie, Mr. Joseph Stephenson, O.B.E., Mr. Percy Toothill, Mr. Joseph Turner, and Mr. A. A. Garrett (Secretary).

SIR THOMAS KEENS

The Council congratulated Sir Thomas Keens upon his completing fifty years in public practice.

ANNUAL REPORT AND ACCOUNTS

The draft Annual Report and Accounts for 1943 were approved for submission to the members of the Society at the annual general meeting, to be held on Thursday, May 18, 1944, at 2.30 p.m.

CONCESSIONS TO ARTICLED CLERKS AND EXAMINATION CANDIDATES SERVING WITH H.M. FORCES

On the recommendation of the Post-War Committee, the Council adopted concessions to articled clerks and examination candidates now with H.M. Forces or called up for whole-time national service. The Post-War Committee were requested to prepare and publish early in May memoranda setting forth the concessions approved.

COMPANY LAW AMENDMENT COMMITTEE

A report was received that the Society's Memorandum of Evidence to the Company Law Amendment Committee had been sent to the Board of Trade, and that oral evidence would shortly be given before the Committee by Mr. E. Cassleton Elliott and Mr. A. Stuart Allen.

RESEARCH COMMITTEE

The Chairman of the Research Committee reported on the Committee's investigations. A book "Design of Accounts" was now in the press.

PORTRAIT OF THE LATE SIR JAMES MARTIN

The Secretary reported that, in accordance with the wishes of the late Sir James Martin, his two daughters—Mrs. Rex Leigh and Mrs. H. R. Kavanagh—had presented to the Society the portrait in oils of Sir James by Mr. Solomon Soloman, R.A. The Secretary was instructed to express the appreciation of the Council to Mrs. Leigh and Mrs. Kavanagh.

RESIGNATIONS

The following resignations were accepted with regret from the dates indicated:—

Midgley, George Appleyard (Associate), Bolton. *December 31, 1943.*

Jeboult, Douglas Harold (Fellow), London. *March 31, 1944.*

DEATHS

The Secretary reported the death of each of the following members:—

Armit, Robert (Associate), Fife.

Barber, Henry (Fellow), Toronto.

Belton, Owen Joseph (Fellow), Dundalk.

Blake, Ernest Victor (Associate), London.

Condy, Edgar Charles (Fellow), Plymouth.

Foggo, Arthur Richard (Associate), London (on active service).

Fulwood, Fred (Fellow), Sydney, Australia.

Groome, Edward Ernest (Fellow), Manchester.

Ineson, Thomas Richard (Associate), Huddersfield.

Matthews, Robert David (Fellow), Pasadena, California.

Ridsdale, John Herbert (Associate), London (on active service).

Smith, Rodger (Fellow), Blackburn.

Thompson, William Oliver (Associate), Sunderland (on active service).

Whitfield, William John (Associate), London.

Winship, Thomas (Fellow), Durban, S.A.

Wolstenholme, Ernest James (Fellow), Rochdale.

RESULTS OF EXAMINATIONS
IN PRISONER OF WAR CAMPS

JULY, 1943

Passed in Intermediate

The following names are additional to those published in our March issue. Further results are still awaited.

BEIOLEY, ROBERT FREDERICK, formerly clerk to Massey and Ellison, Birmingham.

MITCHELL, LESLIE CHARLES, formerly clerk to W. M. Bayliss, Sons & Co., Oxford.

DECEMBER, 1943

Passed in Final

DONALD, GORDON ALEXANDER, formerly clerk to S. H. Wilson & Co., London.

Further results are awaited.

DISTRICT SOCIETIES AND BRANCHES

SCOTTISH BRANCH

A meeting of the Scottish Council was held in Glasgow on March 24. The Secretary, Mr. James Paterson, reported on a number of matters relating to the profession generally and affecting Scottish members.

In view of the increasing work of the Secretary, Mr. James Hawthorne Paterson was appointed Assistant Secretary.

Annual Meeting

The 64th annual meeting of the Scottish Institute of Accountants, the Scottish Branch of the Society, was held in Glasgow on March 24. Mr. Robert T. Dunlop presided over a good attendance of members.

In moving the adoption of the report and accounts, Mr. Dunlop referred to the satisfactory financial position of the Branch. Apart from the great demand for accountants in connection with work arising out of the war, perhaps the most important question at present exercising the accountancy bodies was the future of the profession. The co-ordination

and organisation of the profession as a whole was a matter of urgent necessity, and it was to be hoped would be accomplished in the near future, but the standard of education, training and examination must be such as would command the confidence of the public.

While each body might retain its individuality, it was essential, in any scheme of co-ordination, that there be a uniform standard of qualification, as a minimum.

Mr. P. G. S. Ritchie seconded the adoption of the report and after remarks by Mr. E. H. Harris, Mr. John Stirling, B.Com. and others, the report was adopted.

The retiring members of Council were re-elected. Mr. John Stewart, F.S.A.A., Grangemouth, was elected to fill the vacancy caused by the death of Mr. E. Hall Wight. The Honorary Auditors, Mr. James A. Mowat, F.S.A.A. and Mr. John S. Gavin, F.S.A.A., Glasgow, were also re-elected.

The meeting closed with a vote of thanks to the chairman.

BENGAL

The offices of the Bengal and District Society have been moved to P.7, Mission Row Extension, Calcutta.

The present office-bearers are: President, Mr. G. Basu, F.S.A.A.; Vice-President, Mr. N. C. Chakravarty, F.S.A.A.; Honorary Secretary, Mr. P. K. Mitra, F.S.A.A.; Honorary Treasurer, Mr. S. K. Ghosh, F.S.A.A.

SCOTTISH NOTES

Mr. Festus Moffat, J.P., Incorporated Accountant, Falkirk, has been appointed by the Secretary of State for Scotland, as a member of the new Rent Tribunal for Stirlingshire and a number of burghs in that area.

Mr. George William Fortune, F.S.A.A., has retired, after 41 years' service as Manager of the People's Bank, Ltd., Edinburgh.

LONDON STUDENTS' SOCIETY

The annual meeting of the London students was held on March 28. The President, Mr. A. A. Garrett, M.B.E., referred to the large proportion of members serving with H.M. Forces. The lecture programme had afforded much satisfaction to those who attended the meetings, and the lecture booklets were sent to all in H.M. Forces. This service had been much appreciated. The Committee had taken a constructive step in arranging for the future issue of papers on various subjects for the post-war education of members. They were keen that some of the young men who would return from H.M. Forces should be on the Committee, and they wished to extend help to all upon their return to the profession.

Mr. D. Mahony, F.S.A.A., was elected President, and Mr. A. V. Hussey, A.S.A.A., Vice-President.

The meeting closed with a vote of thanks to the retiring President.

PERSONAL NOTES

Mr. Ernest Long, F.S.A.A., F.I.M.T.A., City Treasurer of Newcastle-upon-Tyne, has been appointed Secretary of the Institute of Municipal Treasurers and Accountants.

Mr. C. E. Corcoran, A.S.A.A., has been elected chairman of the Bredbury and Romiley Urban District Council for the year 1944-45. Mr. Corcoran previously held this office in 1938-39.

Messrs. C. N. Walter, Lester & Co., Incorporated Accountants, have admitted to partnership Mr. Frederick Charles Stoneham, A.S.A.A., who has been associated with them for a number of years.

Mr. H. Smith, Incorporated Accountant, has been appointed Borough Treasurer of Watford.

Messrs. Smithson, Blackburn & Co., Atlas Chambers, King Street, Leeds, announce that Mr. William Tate, Incorporated Accountant, has retired from the firm. The practice will be continued by the other partners under the same firm name.

REMOVALS

Messrs. A. Macdonald & Co., Incorporated Accountants, advise that they have returned to their former address at 3, Parliament Street, Hull.

Messrs. Thornton, Walker & Co. announce a change of address to 10 and 11, Park Place, St. James's Street, London, S.W.1.